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STATE CORPORATION COMMISSION
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March 9, 1993

Ms. Donna R. Searcy, Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D. C. 20554

RE: Simplification of the
Depreciation Prescription
Process
CC Docket 92-296

Dear Ms. Searcy:

Enclosed please find Comments of the Virginia State Corporation Commission Staff in the above referenced matter.

Very truly yours,

E.C. Addison

Edward C. Addison
Director

ECA:js
Attachment

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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FCC - MAIL ROOM

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D. C. 20554

In the Matter of	)	
	)	**CC Docket 92-296**
Simplification of the Depreciation	)	**Public Notice of**
Prescription Process	)	**December 10, 1992**

COMMENTS OF THE
VIRGINIA STATE CORPORATION COMMISSION STAFF

Edward C. Addison, Director
Division of Communications

William Irby
Manager - Rates and Costs
Division of Communications

P. O. Box 1197
Richmond, Virginia 23209
March 9, 1993

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D. C. 20554

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In the Matter of	)	
	)	**CC Docket 92-296**
Simplification of the Depreciation	)	**Public Notice**
Prescription Process	)	**December 10, 1992**

COMMENTS

The Virginia State Corporation Commission Staff respectfully submits these comments in response to the FCC's Notice of Proposed Rulemaking (NPRM) adopted December 10, 1992 in CC Docket No. 92-296.

We agree that the current FCC depreciation prescription process is too complex and can be simplified, and commend the FCC for putting forth this timely notice and rulemaking.

We are aware that much work, progress and agreement on this issue has already been informally achieved over the last year during at least four meetings and a conference call involving the FCC staff, several state commission staffs, and an industry ad hoc committee. The objective of that effort was "to eliminate the need for a full study and to decrease the filing documentation requirements." Our following recommendations meet this objective. This rulemaking allows formalizing those agreements.

If there is success in simplifying this process, our hope is that it will not change the excellent cooperative effort extended the states over the years by the FCC depreciation staff. This has been of mutual benefit, and should continue.

Of the four simplification options proposed by the FCC, the Basic Factors Range Option is the most appealing. This will permit carriers to choose the three basic factors of projection life, curve shape and future net salvage from a predetermined range for a given account. These factors would then be combined with that account's reserve ratio to calculate the depreciation rate. The chief benefit would be eliminating all supporting study data, which is very time consuming to prepare and review. Under this option the depreciation rate prescription process would essentially be deregulated (assuming the bounds of the range are sufficiently wide).

The next two options would achieve even more simplification, but would sacrifice accuracy in doing so. The Depreciation Rate Range Option would eliminate the necessity to calculate the rate by allowing the carrier to choose any rate from a predetermined range. The Depreciation Schedule Option, as we understand it, would establish an annual expense amount, similar to an amortization, for each vintage of an individual account. The serious flaw in these two methods is that neither is reserve sensitive, and thus neither would allow for a true-up of an under or over recovery if an asset's life changes from the original estimate. Hence, it would be purely coincidental for the goal of depreciation to be achieved, that is, matching expense to capital consumption.

The Price Cap Carrier Option has promise, but its time has not yet come for the local exchange carriers (LECs). It would fully deregulate depreciation prescription for price cap companies by allowing them to calculate their own depreciation rates. This option would be consistent with and entirely appropriate for pure price regulation that has no earnings oversight. The FCC's LEC price cap scheme, of course, retains earnings oversight. Therefore an incentive remains to control depreciation expenses to avoid an overearnings condition where refunds or rate reductions would result. This option would be suitable for AT&T, however, which operates under a form of price regulation that has no earnings oversight. In fact, the Virginia Commission has not participated in AT&T depreciation prescriptions since we adopted price and earnings deregulation for interexchange carriers in 1984. We are aware of no harm that has come from this policy.

For any LEC option adopted, we believe that initially it should be used only for smaller or more stable accounts. Use of such an option should be left up to the carriers. Carriers should be held more accountable and responsible for underrecoveries resulting from a decision to choose an option, unless the underrecovery occurs from being constrained by a prescribed range. Further, the use of any simplification option would not change the endogenous treatment of depreciation under the FCC's LEC price cap scheme. Finally, use of any option would lessen or eliminate the need to continue the use of the so-called equal life group methodology.

We support the concept of removing cost of removal and salvage from the depreciation prescription process. Current period accounting should be used instead. By eliminating these, more overall accuracy will be guaranteed because two speculative estimates will be taken out of the equation. The added benefit, of course, is further depreciation simplification for <u>all</u> accounts. For example, in the Basic Factors Range Option there would be only two factors to consider instead of three.

In conclusion, the Virginia Commission Staff believes the use of the Basic Factors Range Option for certain accounts, combined with current period accounting for salvage and cost of removal for all accounts, will significantly simplify the LEC depreciation prescription process. AT&T and any other earnings deregulated carrier should be permitted to use the Price Cap Carrier Option. We further believe that any simplification adopted in this rulemaking should not be viewed as the ultimate. The industry and regulatory agencies should continue to work together to find additional ways to simplify this process.

Respectfully submitted,

E. C. Addison

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Dated: March 9, 1993